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FM AMEMBASSY SANTIAGO
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INFO RUEATRS/DEPT OF TREASURY WASHDC
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UNCLAS SANTIAGO 000760

STATE PLEASE PASS TO OPIC BILL PEARCE
STATE PLEASE PASS TO USTR KATE KALUTKIEWICZ
TREASURY FOR BLINDQUIST
COMMERCE FOR KMANN

SENSITIVE
SIPDIS

E.O. 12958: N/A
TAGS: [ECON](#) [EFIN](#) [EINV](#) [CI](#)
SUBJECT: CHILE: OPIC-SUPPORTED INVESTMENT FUND MAY BE BETTER
TARGETED AT OTHER COUNTRIES

REFS: (A) STATE 26881 (B) SANTIAGO 316

¶1. (SBU) SUMMARY: Post has no objection to OPIC's proposed investment funds program outlined in ref A. The objectives of the Paladin Realty Latin America Investors III, L.P. fund are compatible with Chile's economic development programs. However, OPIC may find that the program is better targeted at other countries in the region. Post believes that demand for capital from the fund will be much lower in Chile than in other countries being considered, due mostly to a variety of alternative capital sources and a surplus of existing housing and commercial real estate projects. END SUMMARY.

The Need for Such Capital in the Chilean Market

¶2. (SBU) The fund's stated focus will be on long-term capital appreciation through real estate projects in partnership with local developers. The Chilean market is currently experiencing a surplus of housing and other real estate projects in many urban areas. A significant proportion of projects were put on hold in mid-construction during the height of the financial crisis, though some have very recently resumed building.

¶3. (SBU) Many real estate companies have now partnered with banks and even retail chains (an alternative source of credit in Chile) to offer special incentives that will spur sales of existing housing. Given the current environment, the fund might find a markedly decreased appetite among developers for the purchase and/or construction of new housing or new commercial real estate projects.

Availability of Funds from Other Sources

¶4. (SBU) Chile's modern, open-market economy has an extremely sophisticated (if somewhat conservative and small) financial market. There are many sources of capital (including significant participation from foreign banks) and more are starting to emerge (e.g., retail chains as cited above). The flow of credit to major providers within the Chilean market appears to have been largely unaffected by the financial crisis. The banking sector and the GOC continue to assert that the Chilean financial sector is well-capitalized.

¶5. (SBU) Small- to medium-sized enterprises (SMEs) and individual consumers have had greater difficulty accessing credit and new capital as a result of the crisis. The GOC has taken several measures to promote lending and improve access to credit. For example, in March the Government announced a new "Pro-Credit Initiative" designed to stimulate bank and non-bank credit by generating an extra US\$3.6 billion in private loans (ref B). In the area of affordable housing, the GOC provides a healthy subsidy (sometimes more than 50% for the lowest income brackets) for those

disadvantaged sectors of Chilean society in need of securing a home.

OPIC's program would likely find itself in serious competition with the GOC and numerous private sector capital providers in both housing and commercial real estate projects. However, the fund might be able to find a niche in targeting middle-income housing projects and commercial real estate projects associated with SMEs.

Local Reputation of Fund Manager

[¶6.](#) (SBU) Post has no information regarding the Chilean reputation of the prospective fund managers, Paladin Realty Partners, LLC.

SIMONS